



White Lake Community Library
Muskegon County, Michigan
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

December 31, 2004

61-8001

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name WHITE LAKE COMMUNITY LIBRARY	County MUSKEGON
Audit Date 12/31/04	Opinion Date 2/25/05	Date Accountant Report Submitted to State: 4/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC			
Street Address 500 TERRACE PLAZA - P.O. BOX 999		City MUSKEGON	State MI
Accountant Signature <i>Timothy J. Luter, C.P.A. for Brickley DeLong, PLC</i>		ZIP 49443	Date 4/7/2005

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White Lake Community Library
Management's Discussion and Analysis
December 31, 2004

Brief discussion of the basic financial statements

This annual report consists of three parts-*management's discussion and analysis, the basic financial statements, and required supplementary information*. The basic financial statements include information that presents two different views of the Library.

*The first two columns of the financial statements include information about the Library's General Fund and Debt Service Fund under the modified accrual method of accounting. These financial statements focus on current resources and provide a detailed view of the Library's sources and uses of funds.

*The "Adjustments" columns of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method of accounting required for the year ended December 31, 2004.

*The last columns provide both long term and short term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole, and present a longer term view of the Library's finances.

The financial statements also include *notes* which explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Since this is the first year that a *management's discussion and analysis* report is required to be presented, consistent with Governmental Accounting Standards Board Statement Number 34, this year's report does not show data in comparison with the prior years. In the future, the condensed financial information which follows will include that information.

Condensed Financial Information

A. Statement of Net Assets

Funds invested in capital assets include the Library's collections of materials minus accumulated depreciation, funds due from other governmental units, prepaid expenses and fixed assets. The restricted funds are the amounts available for retirement of the Library's debt which is for the building. Unrestricted monies are available for operating expenses.

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Management's Discussion and Analysis
December 31, 2004

Condensed Statement of Net Assets

Current assets	\$ 641,417
Capital assets, net of depreciation	<u>1,838,492</u>
Total assets	2,479,909
 Current liabilities	 (430,543)
 Noncurrent liabilities	
Due within one year	(66,273)
Due in more than one year	<u>(1,483,296)</u>
 Net assets	
Invested in capital assets, net of related debt	308,492
Restricted for debt service	72,325
Unrestricted	<u>118,980</u>
 Total net assets	 <u>\$ 499,797</u>

B. Statement of Activities

The information that follows reports key financial information in a condensed format. Amounts and totals reported are for all Library activities, including general operations, debt retirement, gifts received, and net assets, in order to give a complete picture.

The Library's net assets increased by \$49,365 in 2004 because property tax and other revenues were greater than expenses in both the General Fund and the Debt Service Fund.

Depreciation expense represents 21.86% of total expenditures.

White Lake Community Library
Management's Discussion and Analysis
December 31, 2004

Condensed Statement of Activities

Charges for services	\$ 18,968
General revenues	
Property taxes	387,718
Intergovernmental revenues	23,809
Grants and contributions	32,163
Fines and forfeitures	47,384
Other	<u>4,950</u>
Total Revenues	514,992
Expenditures	
Salaries and wages	143,116
Depreciation expense	101,799
Debt service interest and fees	79,062
Fringe benefits	37,228
Utilities	27,330
Contracted services	27,154
Other expenses	<u>49,938</u>
Total Expenditures	<u>465,627</u>
Change in net assets	49,365
Net assets at January 1, 2004	<u>450,432</u>
Net assets at December 31, 2004	\$ <u>499,797</u>

Analysis of Financial Statements

The White Lake Community Library operates two separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operation are recorded. The Debt Service Fund is established to collect taxes and pay the long-term debt associated with the Library's bond issue used to build the library building. The previously disclosed information is presented in total for both funds in conformance with GASB 34.

The Fund balance of the General Fund increased \$20,461 because restricted property tax and fines revenues were higher than currently required expenditures. The ending fund balance of \$151,544 is equal to about six months worth of our annual budget.

White Lake Community Library
Management's Discussion and Analysis
December 31, 2004

In the General Fund, the significant balances, other than cash, are property taxes receivable and an offsetting deferred revenue since the taxes levied in December 2004 are intended to fund fiscal year 2005, and the \$9,000 due to other funds is the Debt Service Fund's portion of the deferred revenue, which was not transferred to the Debt Service Fund until 2005. The portion of the Fund balance that is designated for building maintenance is for future expansion of the Library, which the Board feels is inevitable in the future due to growth in usage every year and increase in population each year.

The largest expense of the Library is salaries and wages, since the Library is a service organization which requires staff to provide the services. The fringe benefits include payroll taxes paid for all employees as well as health insurance for the two full time employees and retirement for the library director. At present the Library employs 12 people. The third largest expense for the Library is utilities which includes building climate (heat and air), electricity, and water. Contracted services is the other significant expense and includes garbage pick up, computer maintenance, snowplowing and lawn services, maintenance agreements for heating and the phone system, and security system fees, among others.

The fund balance of the Debt Service Fund increased \$24,842 in 2004, bringing the fund balance to \$72,325. The property taxes collected for the Debt Service Fund are restricted to be used only for payment of the bond principal and interest. The bond principal, interest and fees payments were \$144,414 in 2004.

Library Budget Highlights

The only significant budget variations were in salaries and wages and utilities expenses. The salary and wage expense was less than expected due to a reduction in accrued sick and vacation pay. Utilities were under budget by \$2,395 since costs were less than expected.

Significant Capital Asset and Long Term Debt Activity

The largest capital assets purchased and/or donated to the Library in 2004 were books and materials in the amount of \$42,101. Books and materials removed from the collections totaled \$7,937 and were all fully depreciated. The only other added capital assets were two new computers for the circulation desk with a total cost of \$2,006. The building represented approximately 90% of the net capital assets at December 31, 2004.

White Lake Community Library
Management's Discussion and Analysis
December 31, 2004

The Library acquired no new debt in 2004. The final payment for the patron photocopier loan was made in 2004. The balance of the bonds for the building was \$1,530,000 at December 31, 2004, \$65,000 worth of bonds were retired in 2004. The compensated absences balance of \$16,347 is the balance of the amount employees who receive paid sick time would have to be compensated if separated from the Library.

Anticipated Budget Factors and Currently Known Facts for 2005

In late 2003 and during 2004, the Library participated in a strategic plan to set goals and plans for the years 2004-2008 to try to anticipate future needs of patrons and how to meet those needs. The effect on the 2005 budget was to increase spending on materials so that in 4 years the total increase would be at least 10%.

Property tax revenues are expected to increase 6.2% in 2005. Capital expenditures planned for 2005 are two new computers, 5 new lamps for the reading room, and parking lot resurfacing.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in them. Questions may be directed to Library Director, Bette Carlson at White Lake Community Library, 3900 White Lake Drive, Whitehall, MI 49461.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

February 25, 2005

Board of Directors
White Lake Community Library
Whitehall, Michigan

We have audited the accompanying financial statements of White Lake Community Library as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the White Lake Community Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of White Lake Community Library as of December 31, 2004 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through v and 14 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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White Lake Community Library
BALANCE SHEET—STATEMENT OF NET ASSETS
December 31, 2004

ASSETS	General	Debt service	Total	Adjustments	Statements of Net Assets
Cash and investments	\$ 175,838	\$ 72,325	\$ 248,163	\$ -	\$ 248,163
Taxes receivable, net	219,777	166,542	386,319	-	386,319
Due from other governmental units	2,861	-	2,861	-	2,861
Due from other funds	-	9,000	9,000	(9,000)	-
Prepaid expenditures	4,074	-	4,074	-	4,074
Capital assets, net	-	-	-	24,480	24,480
Nondepreciable	-	-	-	1,814,012	1,814,012
Depreciable	-	-	-	-	-
Total assets	\$ 402,550	\$ 247,867	\$ 650,417	1,829,492	2,479,909
LIABILITIES					
Accounts payable	\$ 6,819	\$ -	\$ 6,819	-	6,819
Accrued liabilities	4,794	-	4,794	12,995	17,789
Deferred revenues	230,393	175,542	405,935	-	405,935
Due to other funds	9,000	-	9,000	(9,000)	-
Noncurrent liabilities	-	-	-	66,273	66,273
Due within one year	-	-	-	1,483,296	1,483,296
Due in more than one year	-	-	-	1,553,564	1,980,112
Total liabilities	251,006	175,542	426,548	-	-
FUND BALANCE					
Reserved for prepaid expenditures	4,074	-	4,074	(4,074)	-
Reserved for debt service	-	72,325	72,325	(72,325)	-
Unreserved					
Designated for building maintenance	25,060	-	25,060	(25,060)	-
Undesignated	122,410	-	122,410	(122,410)	-
Total fund balance	151,544	72,325	223,869	(223,869)	-
Total liabilities and fund balance	\$ 402,550	\$ 247,867	\$ 650,417	-	-
NET ASSETS					
Invested in capital assets, net of related debt				308,492	308,492
Restricted for debt service				72,325	72,325
Unrestricted				118,980	118,980
Total net assets				\$ 499,797	\$ 499,797

The accompanying notes are an integral part of this statement.

White Lake Community Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
IN FUND BALANCES—STATEMENT OF ACTIVITIES
Year ended December 31, 2004

	General	Debt service	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 218,716	\$ 169,002	\$ 387,718	\$ -	\$ 387,718
Intergovernmental revenue					
State	9,337	-	9,337	-	9,337
Local	14,472	-	14,472	-	14,472
Grants	4,547	-	4,547	-	4,547
Charges for services	18,968	-	18,968	-	18,968
Fines and forfeits	47,384	-	47,384	-	47,384
Investment income	2,223	864	3,087	-	3,087
Contributions	9,084	-	9,084	18,532	27,616
Other	1,992	221	2,213	(350)	1,863
	<u>326,723</u>	<u>170,087</u>	<u>496,810</u>	<u>18,182</u>	<u>514,992</u>
Expenditures					
Current					
Salaries and wages	137,663	-	137,663	5,453	143,116
Fringe benefits	37,228	-	37,228	-	37,228
Operating supplies	8,169	-	8,169	-	8,169
Office supplies	4,416	-	4,416	-	4,416
Insurance and bonds	8,123	-	8,123	-	8,123
Repairs and maintenance	3,196	-	3,196	-	3,196
Utilities	27,330	-	27,330	-	27,330
Professional services	12,054	825	12,879	-	12,879
Contracted services	27,154	-	27,154	-	27,154
Telephone	3,122	-	3,122	-	3,122
Other	6,099	6	6,105	-	6,105
Depreciation	-	-	-	101,799	101,799
Capital outlay	29,503	-	29,503	(25,575)	3,928
Debt service					
Principal	2,075	65,000	67,075	(67,075)	-
Interest and fees	130	79,414	79,544	(482)	79,062
	<u>306,262</u>	<u>145,245</u>	<u>451,507</u>	<u>14,120</u>	<u>465,627</u>
Change in fund balance—net assets	20,461	24,842	45,303	4,062	49,365
Fund balance—net assets at January 1, 2004	131,083	47,483	178,566	271,866	450,432
Fund balance—net assets at December 31, 2004	<u>\$ 151,544</u>	<u>\$ 72,325</u>	<u>\$ 223,869</u>	<u>\$ 275,928</u>	<u>\$ 499,797</u>

The accompanying notes are an integral part of this statement.

White Lake Community Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Effective January 1, 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- The Library's activities are presented on both the modified accrual basis of accounting (as in the past) as well as the full accrual basis of accounting.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balance at January 1, 2004—governmental funds	\$ 178,566
Net capital assets	1,896,534
Accrued interest	(13,477)
Long-term liabilities	<u>(1,611,191)</u>
Restated net assets at January 1, 2004	<u>\$ 450,432</u>

1. Reporting Entity

White Lake Community Library is incorporated under the provisions of the District Library Establishment Act of Michigan for the purpose of providing a community library for education and recreation to Whitehall Township, Fruitland Township, Blue Lake Township, Dalton Township and the City of Whitehall. The Library is governed by eight member Library Board, appointed by the participating governmental units, and is administered by a Library Director appointed by the Board.

The accounting policies of the Library conform to generally accepted accounting principles as applicable to a governmental fund type of a governmental unit.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

White Lake Community Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus and Basis of Accounting

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The Debt Service Fund is used to fund the Library's long-term debt related to the construction of the library facility.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

4. Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

White Lake Community Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". The due to/from at the end of the year were a result of the timing of property tax receipt transfers.

Advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 14. The property taxes attach as an enforceable lien on property as of December 1. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. The 2003 State taxable valuation for real/personal property of the Library total was approximately \$321,000,000 and \$348,500,000 for the operating levy and the debt levy, respectively. The ad valorem taxes levied consisted of .68 mills and .47 mills for operating and debt service purposes, respectively.

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. The prepaid items recorded in the governmental fund types do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Capital Assets

Capital assets, which include plant and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	50
Land improvements	20
Library books, periodicals, etc.	7
Equipment	3-5
Furniture and fixtures	5

White Lake Community Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon position and length of service. Vacation time must be used in the current fiscal year. Upon termination, unused vacation time is paid at the current pay rate. Sick leave is accumulated at varying amounts based upon position. Upon resignation or retirement, unused accumulated sick leave is paid at the current pay rate.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

White Lake Community Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- c. Not later than December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Library's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of December 31, 2004, the Library's carrying amount of deposits was \$105,980 and the bank balance was \$107,784. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$7,784 was uninsured and uncollateralized.

2. Investments

As of December 31, 2004, the Library's investments represented holdings in investment pools and mutual funds. During the year ended December 31, 2004, the Library's investments were only in this type of investment.

The Library's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Library's or its agent in the Library's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Library's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of December 31, 2004, the Library's fair value in those pools and mutual funds was \$142,183.

White Lake Community Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE D—CAPITAL ASSETS

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance December 31, <u>2004</u>
Capital assets, not being depreciated:				
Land	\$ 24,480	\$ -	\$ -	\$ 24,480
Capital assets, being depreciated:				
Land improvements	36,051	-	-	36,051
Library books, periodicals, etc.	424,498	42,101	7,937	458,662
Building	1,822,436	-	-	1,822,436
Furniture, fixtures and equipment	<u>194,662</u>	<u>2,006</u>	<u>6,765</u>	<u>189,903</u>
Total capital assets, being depreciated	2,477,647	44,107	14,702	2,507,052
Less accumulated depreciation for:				
Land improvements	4,048	1,803	-	5,851
Library books, periodicals, etc.	333,715	23,166	7,937	348,944
Building	121,496	36,449	-	157,945
Furniture, fixtures and equipment	<u>146,334</u>	<u>40,381</u>	<u>6,415</u>	<u>180,300</u>
Total accumulated depreciation	<u>605,593</u>	<u>101,799</u>	<u>14,352</u>	<u>693,040</u>
Total capital assets being depreciated, net	<u>1,872,054</u>	<u>(57,692)</u>	<u>350</u>	<u>1,814,012</u>
Capital assets, net	\$ <u>1,896,534</u>	\$ <u>(57,692)</u>	\$ <u>350</u>	\$ <u>1,838,492</u>

Depreciation

Depreciation expense was unallocated for the year ended December 31, 2004.

NOTE E—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Library for the year ended December 31, 2004.

	Balance January 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance December 31, <u>2004</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 1,595,000	\$ -	\$ 65,000	\$ 1,530,000	\$ 65,000
Installment purchase agreements	2,075	-	2,075	-	-
Compensated absences	<u>14,116</u>	<u>5,453</u>	<u>-</u>	<u>19,569</u>	<u>1,273</u>
Governmental activity					
Long-term liabilities	\$ <u>1,611,191</u>	\$ <u>5,453</u>	\$ <u>67,075</u>	\$ <u>1,549,569</u>	\$ <u>66,273</u>

White Lake Community Library
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE E—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance December 31, <u>2004</u>
Governmental activities:	
General obligation bonds:	
\$1,750,000 Library Building and Site Bonds of 1999 requiring annual principal payments of \$65,000 to \$130,000; final payment due May 2020; interest rates varying from 4.5% to 5.2%	\$ 1,530,000
Compensated absences	<u>19,569</u>
	<u>\$ 1,549,569</u>

The bonds are backed by the full faith and credit of the Library.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2004 follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 65,000	\$ 76,489
2006	70,000	73,383
2007	70,000	70,092
2008	75,000	66,611
2009	80,000	62,813
2010-2014	460,000	247,255
2015-2019	580,000	113,374
2020	<u>130,000</u>	<u>3,412</u>
	<u>\$ 1,530,000</u>	<u>\$ 713,429</u>

NOTE F—DEFERRED COMPENSATION PLAN

The Library offers its library director a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits the library director to defer a portion of their salary until future years. The Library contributed 18.83 percent of the library director's base salary. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The Library's matching contribution was \$7,619 for the year ended December 31, 2004.

The Plan has created a trust for the exclusive benefit of the Plan's participant and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

White Lake Community Library
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE G—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance – governmental funds	\$ 223,869
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Amounts reported for government activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are
not current financial resources and are not reported
in this governmental fund.

Cost of capital assets	\$ 2,531,532	
Accumulated depreciation	<u>(693,040)</u>	1,838,492

Long-term liabilities in governmental activities are
not due and payable in the current period and are
not reported in the governmental funds.

(1,530,000)
<u>(19,569)</u>

Long-term debt

Compensated absences	(1,549,569)
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Accrued interest in governmental activities is not
reported in the governmental funds

<u>(12,995)</u>

Net assets of governmental activities in the
Statement of Net Assets

<u>\$ 499,797</u>

Net change in fund balances – total governmental funds	\$ 45,303
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Amounts reported for government activities in the
Statement of Activities are different because:

Contributions of fixed assets recorded as revenues in the
Statement of Activities, but not in the governmental funds.

18,532

Governmental funds report outlays for capital assets and
bond issuance costs as expenditures in the Statement of
Activities; these costs are depreciated and amortized over
their estimated useful lives.

Depreciation expense	(101,799)
Capital outlay	25,575

White Lake Community Library
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS—Continued**

Net change in fund balances—Continued

Governmental funds report the entire net proceeds from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets.	\$ (350)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	67,075
Accrued interest on long-term liabilities is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	482
Increase in compensated absences are reported as expenditures when financial resources are used in the governmental funds.	<u>(5,453)</u>
Change in net assets in governmental activities	<u>\$ 49,365</u>

REQUIRED SUPPLEMENTAL INFORMATION

White Lake Community Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE—BUDGET AND ACTUAL—GENERAL FUND
Year ended December 31, 2004

	Original budget	Modified actual		Over (under) final budget
		Final budget	Actual	
Revenues				
Property taxes	\$ 218,301	\$ 218,301	\$ 218,716	\$ 415
Intergovernmental revenue				
State	8,000	9,337	9,337	-
Local	9,274	14,472	14,472	-
Grants	-	4,547	4,547	-
Charges for services	18,170	20,730	18,968	(1,762)
Fines and forfeits	37,200	46,624	47,384	760
Investment income	2,400	2,400	2,223	(177)
Contributions	8,000	8,500	9,084	584
Other	-	1,500	1,992	492
	<u>301,345</u>	<u>326,411</u>	<u>326,723</u>	<u>312</u>
Expenditures				
Current				
Salaries and wages	144,660	144,660	137,663	(6,997)
Fringe benefits	34,759	36,159	37,228	1,069
Operating supplies	6,300	8,200	8,169	(31)
Office supplies	4,600	4,600	4,416	(184)
Insurance and bonds	8,300	8,300	8,123	(177)
Repairs and maintenance	4,500	3,500	3,196	(304)
Utilities	28,100	29,725	27,330	(2,395)
Professional services	9,100	12,082	12,054	(28)
Contracted services	27,621	27,393	27,154	(239)
Telephone	2,900	3,150	3,122	(28)
Other	3,600	6,100	6,099	(1)
Capital outlay	24,700	31,492	29,503	(1,989)
Debt service				
Principal	2,075	2,075	2,075	-
Interest and fees	130	130	130	-
	<u>301,345</u>	<u>317,566</u>	<u>306,262</u>	<u>(11,304)</u>
Excess of revenues over (under) expenditures	\$ -	\$ 8,845	\$ 20,461	\$ 11,616
Fund balance at January 1, 2004			<u>131,083</u>	
Fund balance at December 31, 2004			<u>\$ 151,544</u>	

The accompanying notes are an integral part of this statement.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

February 25, 2005

Board of Directors
White Lake Community Library
Whitehall, Michigan

In planning and performing our audit of the financial statements of White Lake Community Library for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the White Lake Community Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the attached reportable conditions are material weaknesses.

This report is intended solely for the information of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

REPORTABLE CONDITIONS

Computer Software

Recommendation 1: Internal controls should be strengthened by use of program passwords and program restrictions.

During our testing, we noted that computer passwords are not required in order to gain access to computer software programs. In addition, the bookkeeper has full program authority to charge transactions. Open access to computer software could enable unauthorized use/manipulation of the computer system.

The required use of user passwords and other levels of security would help ensure that only authorized access, and approved changes are made to the accounting records.

The Library's computer system has the ability to restrict access to certain administrative functions.

We recommend that the Library review its internal control system and implement the additional computer system's restrictions.

Capitalization Policies

Recommendation 2: A written capitalization policy should be developed for fixed asset, depreciable lives.

During our audit, we noted that the Library does not have a written policy regarding the estimated useful lives for fixed assets.

The development of a depreciation policy, including estimated useful lives, would help ensure consistent, treatment and depreciation of assets for financial statement purposes.